

Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SOUTHERN CALIFORNIA EDISON COMPANY U-338, for an Order increasing the currently authorized amount of variable interest rate debt instruments, or guarantees of the debt securities of another, to finance undercollections in its Regulatory Balancing Accounts, from \$700,000,000 to an aggregate principal amount not to exceed \$1,200,000,000.

Application 00-07-048
(Filed July 11, 2000)

O P I N I O N**1. Summary**

This decision grants in part the petition filed by Southern California Edison Company (SCE) on December 17, 2001, and the amended petition filed on January 10, 2002, to modify Decision (D.) 00-10-040 as modified by D.01-01-021. The authority requested by SCE in its petitions and granted by this decision includes the following:

- Authority under Pub. Util. Code § 816 et seq.,¹ to issue \$3.5 billion of additional debt to finance the Procurement-Related Obligations Account (PROACT);
- Authority under § 851 to issue debt secured by (1) a mortgage on SCE's property, and (2) SCE's accounts receivable; and

¹ All statutory references are to the Public Utilities Code unless otherwise indicated.

- Authority to issue the following types of debt on a negotiated basis instead of through competitive bids: (1) debt issues in excess of \$200 million, and (2) variable-rate debt.

2. Background

In D.01-01-021, January 4, 2001, the Commission granted SCE the authority it requested in its petition to modify D.00-10-040, in which the Commission had already authorized SCE to incur \$1.3 billion of new debt. D.01-01-021 authorized the following:

- Authority under Pub. Util. Code § 816 et seq., to issue an additional \$3.5 billion of additional debt to finance the purchase wholesale power for delivery to SCE's retail customers;
- Authority under § 851 to issue debt secured by (1) a mortgage on SCE's property, and (2) SCE's accounts receivable; and
- Authority to issue the following types of debt on a negotiated basis instead of through competitive bids: (1) debt issues in excess of \$200 million, and (2) variable-rate debt.

In those decisions, the Commission makes specific references to the procurement-related undercollections in SCE's Transition Revenue Account (TRA), the relevant ratemaking and accounting then in effect.

On March 27, 2001 in D.01-03-082, the Commission granted The Utility Reform Network's (TURN)² petition to modify Resolution E-3527. In accordance with D.01-03-082, the balance of SCE's TRA is transferred on a monthly basis to its Transition Cost Balancing Account (TCBA). The Commission ordered this change made retroactively, so that it was effective as of January 1, 1998. SCE complied with that decision. Thus, any procurement-related undercollection in the TRA in any given month was now transferred to the TCBA.

² See, D.01-03-082, p. 57, Ordering Paragraph 7.

In the meantime, the Commission and SCE reached a settlement on the recovery of certain wholesale procurement costs. The Federal District Court approved that settlement on October 5, 2001. SCE's procurement-related obligations are now to be aggregated in a newly created ratemaking and accounting mechanism: the PROACT. On November 15, 2001, SCE filed Advice Letter 1586-E to establish PROACT. The Commission's Energy Division reviewed SCE's procurement-related obligations, and by letter to SCE confirmed the starting balance for the PROACT. Pursuant to the Settlement Agreement, SCE is to recover in retail rates its procurement-related obligations in the PROACT, with interest, by December 31, 2005.

In its December 17, 2001 petition, SCE requests that the language in the decisions, including references to the TRA and TCBA, be changed to appropriately identify or otherwise refer to PROACT. SCE asks that the Commission consider this request concurrently with its review of an advice letter filing to implement the settlement, and if appropriate to modify D.00-10-040 and D.01-01-021, contingent on the Commission adoption of the PROACT. In its filing, SCE also requests that if the Commission acts on its petition prior to acting on the PROACT advice letter filing, that the modifications sought by SCE be made contingent on adoption of the PROACT.

SCE further requests that the Commission waive the periods provided for in Rules 47(f) and 77.7, respectively, for responses to the petition and for comments on a draft decision in order to be able to finance its PROACT balance immediately.

On December 28, 2001, Administrative Law Judge (ALJ) Kenney ruled that SCE must amend its petition in order to update the record in this proceeding to determine whether, and to what extent, SCE has a need to issue the amount and type of debt authorized by D.01-010-021 and D.00-10-040.

SCE filed its response on January 10, 2002, as an amended petition for modification to D.01-01-021 and D.00-10-040. By ALJ ruling issued on January 15, 2002, parties were directed to file comments by January 18, 2002.

3. SCE's Amended Petition for Modification

In its amended petition filed on January 10, 2002, SCE provided detailed financial information in response to the December 28, 2001 ruling.

The following table shows the type, principal amount and authorizing decision for the debt that is outstanding pursuant to the Decisions as of the date of this amendment:

Type of Debt	Amount	Decision
Bank Loan: 364-Day Line	\$200,000,000	D.01-01-021
Bank Loan: Bilateral Lines	\$400,000,000	D.01-01-021
Bank Loan: 5-Year Line	\$1,050,000,000	D.01-01-021
Floating Rate Notes	\$300,000,000	D.00-10-040
Variable-Rate Notes	\$1,000,000,000	D.00-10-040
Commercial Paper	\$530,000,000	D.89-08-023 and D.00-10-040
TOTAL:	\$3,480,000,000	

SCE explains it is not seeking to increase the amount of debt authorized by the Decisions, but only to clarify that the existing authorization, which originally referred to the TRA costs that would be the subject of balancing account financing, should now be interpreted to apply to the costs that will be included in the PROACT. SCE also notes that under D.01-01-021, as proposed to be modified herein, the \$4.8 billion of authorization will expire automatically six

months after the PROACT balance is recovered, leaving SCE with the original authorization of \$700 million of balancing account financing provided by D.91269, D.87-09-050 and D.89-08-023.

As shown in the table, SCE currently has \$3.48 billion of debt that is issued and outstanding under the decisions. SCE currently expects that it will be unable to repay any of that debt until about March 1, 2002, or after. Therefore, SCE concludes that it needs to retain continuing authorization for at least \$3.48 billion of PROACT-related debt to remain outstanding until all overdue obligations are repaid.

In addition to repaying all its overdue obligations to Qualifying Facilities, the Power Exchange and the Independent System Operator, and other parties, SCE also expects to repay its bank loans and commercial paper, totaling \$2.18 billion, plus accrued interest. To make all the repayments, SCE states that it will need to obtain financing of about \$2.0 billion in addition to its cash on hand. That \$2.0 billion amount includes a contingency of up to \$500 million to allow for the uncertainties and timing associated with retail revenue receipts and procurement costs during the PROACT recovery period. Such contingency may be necessary if SCE's Recoverable Costs exceed SCE's revenues from Settlement Rates, causing the PROACT balance to increase. SCE would issue up to \$500 million of additional debt in the event that incoming cash flows are insufficient to support payment obligations during the PROACT recovery period, such as the scheduled \$300 million note maturity on May 1, 2002. SCE's floating rate notes and variable rate notes, totaling \$1.3 billion as shown on the table above, will remain outstanding until their maturity dates. Therefore, SCE states that it will need continued financing authorization of at least \$3.3 billion to cover the \$1.3 billion of notes and \$2.0 billion of other financing.

SCE explains that it plans to use all cash on hand (less approximately \$100 million for daily working capital requirements) to repay all past-due obligations on the Repayment Date. SCE expects that the Repayment Date will occur on or about March 1, 2002, subject to obtaining the necessary PROACT decisions from the Commission and arranging necessary financing. Based on its 2002 Cash Forecast (See Appendix A and Appendix B), approximately \$3.7 billion in cash-on-hand and approximately \$1.7 billion in additional financing will be used to pay off these obligations leaving SCE with approximately \$100 million in cash and cash equivalents to support operating cash flows.

SCE explains that it seeks continued authority to issue debt secured by its real property and/or accounts receivable and states that providing security to lenders will be necessary for SCE to borrow enough money to pay off its past-due amounts. At present, SCE's unsecured debt is rated Caa2 by Moody's Investors' Service and CC by Standard and Poor's Rating Service. Although SCE expects these ratings to improve once the Company clears all of its past-due payments, SCE maintains that it is highly unlikely that an investment-grade rating will be achieved soon enough to alleviate SCE's need to issue secured debt.

SCE also explains that, based on its weak financial condition and its financing requirements of \$1.5 to \$2 billion, SCE has been advised by its banks and financial advisors that SCE must provide security in order to complete the financing. SCE intends to back most or all of its new debt with first mortgage bonds. In addition, SCE is exploring whether a financing backed by the Company's receivables will be a cost-effective alternative or supplement to first mortgage bonds. Thus, SCE continues to seek the option of securing the debt with its receivables.

Finally, SCE states that it will not need to issue additional debt to finance the TRA or the TCBA after the Commission implements the PROACT as set forth in SCE's Advice Letter 1586-E. However, SCE has existing debt outstanding that was originally issued to finance the TRA and the TCBA. SCE referenced the TRA and TCBA in its Petition in order to reaffirm that the debt previously issued was duly authorized at the time and continues to be authorized.

SCE points out that after the PROACT is recovered and the additional authorization granted by the Decisions has expired, SCE will retain its original \$700 million authority for financing balancing account undercollections as authorized in D.87-09-050 and D.89-08-023. SCE anticipates that such authorization will continue to be necessary for general balancing account financing on an ongoing basis.

4. Discussion

After review of SCE's detailed response to the ALJ's ruling, we are persuaded that we should grant SCE's petition promptly so that it can obtain the necessary financing to accomplish the payoff of past-due obligations.

SCE recommends that the authorized amount of \$4.8 billion,³ be left unchanged. Alternatively, SCE states that at least \$3.5 billion of authorization must be maintained to cover at least the amount of debt that SCE estimates will be outstanding at any one time relating to the PROACT. SCE believes that any excess debt authorization will expire after the PROACT balance is recovered. We are not convinced by SCE's argument for keeping the original authorization of \$4.8 billion. It is reasonable to grant authorization of \$3.5 billion. This amount

³ \$3.5 billion was authorized by D.01-01-021 and \$ 1.3 billion was authorized by D.00-10-040.

will cover the amount of debt that SCE estimates will be outstanding at any one time relating to the PROACT.

SCE requests that if we authorize only \$3.5 billion that it be allowed to file at some future date for a refund or a credit for the fees it paid under Pub. Util. Code § 1904(b) related to the difference between the \$4.8 billion previously authorized and the \$3.5 billion we authorize today. We will order the refund of the difference in financing fees, approximately \$656,000, between the \$4.8 billion requested and the \$3.5 billion authorized to SCE.

The Commission requires utilities to obtain competitive bids for the sale of their debt securities in accordance with the rules set forth in D.38614, as amended by D.49941, D.75556, D.81908 and Resolution F-616 (the “Competitive Bidding Rules”). In its petition, SCE requests two exemptions from the Competitive Bidding Rules for debt issued pursuant to D.01-01-021 and D.00-10-040. SCE states that times have changed since it was an A-rated company when it used competitive bidding for most of its fixed-rate taxable debt financings.

SCE states since its bond rating has fallen below single “A”, and therefore the Commission’s competitive bidding rules do not apply to SCE pursuant to Resolution No. F-616. SCE further states that even if the ratings rise above an “A” rating that it will continue to face significant challenges accessing the capital markets.

We agree that it would be unlikely that SCE will be able to obtain financing through competitive bids in the near future. We grant SCE’s request for the exemption from the Competitive Bidding Rules. SCE concludes that its financial condition and the size of the necessary financing preclude the use of competitive bidding. When SCE was an A-rated company, SCE used competitive bidding for most of its fixed-rate taxable debt financings. Because of

its strong credit rating, SCE's debt was well received by the market. In addition, SCE's typical issuance amount of \$100 to \$300 million per transaction was easily digested by the market. SCE and its financial advisors and underwriters may now need to spend substantial time with investors to explain SCE's situation and market the debt. Completing SCE's financing and paying off its past-due amounts is the first step towards regaining creditworthiness. As the Commission has recognized, SCE's inability to access credit threatens service reliability and prevents the Company from returning to its traditional function of procuring power for retail customers. Thus, it is in the public interest to allow SCE to provide security to its lenders in order to complete this financing. We do so based on SCE's representation that granting the exemptions will enhance SCE's ability to issue debt on advantageous terms. This decision makes no finding regarding the reasonableness of the rates, terms, and conditions of debt issued by SCE pursuant to the exemptions granted herein.

5. Request for Expedited Relief

SCE believes that it is imperative for the Commission to grant SCE's petition at its meeting of January 23, 2002. SCE states that by promptly allowing it to proceed with its contemplated first quarter financings and thereby regaining its creditworthiness that it will serve the public interest by speeding its return to performing its traditional function of procuring power for its retail customers. SCE further requests that the Commission waive the period provided by Rule 77.7 for comments and reply comments on a draft decision in order that it may issue a decision to be effective immediately. The petition was uncontested.

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Pub. Util. Code § 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

Findings of Fact

1. On October 2, 2001, SCE and the Commission entered into an agreement to settle SCE's lawsuit against the Commission. The U.S. District Court approved the Settlement Agreement on October 5, 2001.

2. SCE is not seeking authorization for additional debt in this filing. It intends to use the debt authorized by D.01-21-021 and D.00-10-040 to finance the beginning balance in the PROACT and to finance the actual payoff payments of past-due obligations reflected in the PROACT balance at the Repayment Date.

3. It is necessary to take immediate action on SCE's petition to modify D.01-01-021 and D.00-10-040 in order to avoid the possibility of SCE being unable to finance the purchase of wholesale electricity for delivery to its retail customers.

4. SCE represents that it may be difficult to issue large amounts of additional debt in accordance with the Competitive Bidding Rules due to its current bond rating.

5. We should grant SCE's petition promptly so it can obtain the necessary financing to accomplish payoff of its past-due obligations.

6. We should refund to SCE, the difference in financing fees paid to the Commission based on the difference between the \$4.8 billion requested and the \$3.5 billion authorized today.

Conclusions of Law

1. Pursuant to § 816 et seq., the Commission may authorize SCE to issue debt to finance the PROACT.

2. It is reasonable that SCE uses debt to finance past-due obligations.

3. It is reasonable to grant SCE's request for authorization of \$3.5 billion to cover the amount of debt estimated to be outstanding under the PROACT.

4. It is reasonable to grant SCE's request for exemption from the Commission's Competitive Bidding Rules.

5. The following order should be effective immediately in order to avoid the possibility of SCE being unable to finance the purchase of wholesale power for delivery to its retail customers.

6. It is reasonable to refund the difference in financing fees related to the difference between the \$4.8 billion previously authorized and the \$3.5 billion authorized today.

O R D E R

IT IS ORDERED that:

1. Pursuant to Pub. Util. Code § 816 et seq., Southern California Edison Company (SCE) is authorized to issue \$3.5 billion of debt to finance its Procurement-Related Obligations Account (PROACT).

2. Pursuant to Pub. Util. Code § 851 and § 816 et seq., SCE is authorized to finance its PROACT with debt that is secured by (i) a mortgage on SCE's real assets, and (ii) SCE's accounts receivable.

3. Debt used by SCE to finance its PROACT shall be exempt from the Commission's Competitive Bidding Rules amount in excess of \$200 million.

4. SCE's petition to modify Decision (D.) 01-01-021 and D.00-10-040 is granted to the extent set forth in the prior Ordering Paragraphs.

5. The Commission's Fiscal Office shall refund to SCE approximately \$656,000, resulting from the difference in financing fees related to the difference between the \$4.8 billion previously authorized and the \$3.5 billion authorized today.

6. Application 00-07-048 is closed.

This order is effective today.

Dated _____, at San Francisco, California.

(Please see CPUC Formal Files for Appendices A & B.)